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1-1-2006

## 'Money in Capitalism and Capitalist Money'

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### Recommended Citation

Rafferty, Michael and Bryan, Dick: 'Money in Capitalism and Capitalist Money' 2006, 75-95.  
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## **'Money in Capitalism and Capitalist Money'**

### **Abstract**

The wealth of societies in which the capitalist mode of production prevails appears as an immense collection of commodities.

### **Keywords**

Money, Capitalism, Capitalist, Money

### **Disciplines**

Business

### **Publication Details**

Bryan, D. & Rafferty, M. (2006). "Money in Capitalism and Capitalist Money". *Historical Materialism: research in critical Marxist theory*, 14 (1), 75-95.

Dick Bryan and Michael Rafferty

## Money in Capitalism or Capitalist Money?

The wealth of societies in which the capitalist mode of production prevails appears as an immense collection of commodities . . .<sup>1</sup>

From the very first sentence of Marx's *Capital*, we know that capitalism is characterised economically by two essential features: the commodity and the competitive drive to accumulate. As the analysis of both has evolved, money is too often depicted as just the handmaiden, the oil that lubricates commodity exchange and that facilitates accumulation, but without being itself central. With money so readily pushed to the background, it is not surprising that much of Marxism tends to dissociate a 'real' economy of goods and services, class relations, and value, from a monetary world of representation (and misrepresentation).

The recent resurgence of an interest in money and finance is most welcome, for the new prominence of finance on a global scale has forced Marxists to go back to some basic questions about the nature of money in capitalism. The work of Costas Lapavistas

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<sup>1</sup> Marx 1976, p. 125. We wish to thank Roni Demirbag for research assistance and advice and Sam Gindin and Leo Panitch for comments on an earlier draft. The research was funded under Australian Research Council Grant A10009141.

has been a significant contribution, both in recent clarifications of Marx's theory of commodity money and credit,<sup>2</sup> and in debates about the contemporary relevance of Marxist analyses of money.<sup>3</sup>

Few Marxists, and certainly not Lapavitsas, would want to embrace the above juxtaposition as just stated: money *does* matter in a capitalist economy. But this paper poses a further question: what is distinctively capitalist about money in capitalism – how is capitalist money different from non-capitalist money, and how does money itself in capitalism reflect the dual dimensions of commodity and accumulation? In most characterisations, this question is not posed. Money may play distinct roles within capitalism, but money itself is not distinctly capitalist.

Accordingly, monetary histories generally focus on the development of monetary units, reaching their zenith with the formation of the modern state, which enforces these monetary units, the beginnings of prudential supervision, and fiat money.<sup>4</sup> From there, it is a story of the extension of money's role, the development of 'the credit system',<sup>5</sup> and technological innovations in monetary transactions. It is as if, with the development of fiat money and the credit system, money reached its highest imaginable stage of existence. The rest of monetary history is mere refinement.

A conspicuous effect is that the quantitatively largest development of capitalist finance – global derivative markets with their transactions amounting to multiple trillions of US dollars per day – is simply ignored in Marxist discussions. In this paper, we argue that financial derivatives transform fundamentally our understanding of money in capitalism.

Financial derivatives take the connection of money to both commodity exchange and accumulation to a new level. It is not just, as with credit, that derivatives are used as advances for capitalist accumulation. Financial derivatives are themselves an expression of capitalist accumulation. Nor is it just, as with notes and coins, that derivatives facilitate the exchange of commodities. Derivatives are themselves commodities. They are produced and traded, not just as titles to ownership, but as packaged systems of

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<sup>2</sup> See especially Lapavitsas 2000.

<sup>3</sup> See especially Lapavitsas 2003, Itoh and Lapavitsas 1999, and Fine and Lapavitsas 2000.

<sup>4</sup> Indeed, Itoh and Lapavitsas 1999 provide an incisive account of the development of money.

<sup>5</sup> Here, we refer not to credit as deferred payment, but promises to pay circulating as means of payment, especially under the auspices of banks.

conversion between different forms of assets (or revenue streams). Derivatives are distinctively capitalist money,<sup>6</sup> and a recognition of their role serves to transform debates about Marxist theories of money.

We have all read references to derivatives as tools of speculation, which need to be stamped out. Forget about these analyses, for they miss the importance of derivatives in accumulation! The same condemnation was being made in the mid-nineteenth century about the formation of the joint-stock company – that the share market divorced ownership from responsibility, encouraged speculative ownership, and increased the risk of fraud and financial crises. We know that the stock market did (and still does) provide forums for speculation, but it also transformed fundamentally the nature of capital, and created a form of ownership that is distinctively capitalist and could not exist under feudalism or socialism. Our argument is that financial derivatives are doing to the nature of money what limited liability and the stock market did to the nature of ownership.<sup>7</sup>

## **Derivatives: an introduction**

First, a brief definition, but one that is hardly complete, for those less familiar with derivatives. Formally defined, financial derivatives are assets whose value is linked to, and usually understood to ‘derive’ from, another asset (hence the label ‘derivative’). Derivatives are well understood, and have a multiple-thousand year history, as futures contracts. A futures contract locks in a price at a future date. The futures contract may then itself be traded, with its price varying according to the current and expected price of the commodity.

More generally, the underlying attribute of the range of different sorts of derivatives is that they are means for trading risk. Derivatives do facilitate what is usually called ‘speculation’ when some people desire taking on risk. But they primarily provide facilities to lay-off risk – called ‘hedging’. In agricultural markets, futures contracts provide a hedge for both buyers and sellers on the effects of drought, disease, and so forth and, accordingly, this

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<sup>6</sup> We note the fact that Pryke and Allen 2000 have previously made the argument that derivatives represent a new form of money, although they develop this via an engagement with money signs and money’s ‘imaginary’ rather than with theories of value.

<sup>7</sup> See Kay 1991 for a clear Marxist analysis of the importance of the joint-stock company for capitalism.

is where the long history of derivatives lies.<sup>8</sup> But what makes derivatives so important in the current era, and gives them an explicit monetary function, is both the unprecedented scale of derivative markets, and the fact that they are now overwhelmingly used to hedge different sorts of financial assets and money, rather than physical commodities.

In terms of scale, the Bank for International Settlements triennial survey<sup>9</sup> shows that in 2004 global daily turnover in foreign exchange and interest rate derivatives contracts, was \$7 trillion per day (\$4.7 trillion in exchange traded derivatives and \$2.3 trillion in OTC markets).<sup>10</sup> To be sure, part of the derivative trade is simply gambling on exchange rates and interest rates, but most of the remaining transactions involve corporations engaged in hedging. Corporations of all sizes are utilising derivatives to hedge against interest-rate and exchange-rate (but also other financial) volatility. This is not a marginal activity but is central to conventional corporate risk-management strategies. Unfortunately, this usually only comes to light when risk mis-management leads to corporate crashes, such as with Long Term Capital Management, Worldcom, and Enron, but it should not hide the fact that derivative transactions of the same scale as these three cases are being handled daily by all large corporations. Once we see beyond 'speculation' and look at the forces that have driven the growth of derivative products for financial assets, the theory of money on a global scale looks rather different from the one that most Marxists engage.

## Money's social relations

In explaining financial derivative growth, our analysis has jumped ahead of itself. The most recognised answer to the question of the capitalist nature of money emphasises not financial derivatives but the social relations that money

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<sup>8</sup> See, for instance, Working 1953 for the importance of derivatives to accumulation in agricultural production and circulation.

<sup>9</sup> Bank for International Settlements 2005, p. 15.

<sup>10</sup> OTC, or over the counter derivatives, are contracts tailored to two parties, where a financial institution is the 'matchmaker'. These are different from exchange-traded derivatives, where the contracts are bought and sold without the counter party being necessarily known. While exchange-traded derivatives were predominant in the 1980s, OTC derivatives are now larger, signalling the shift to formal and planned hedging strategies by corporations. However, between 2001 and 2004, exchange-traded derivatives grew in turnover relative to OTC derivatives (Bank for International Settlements 2005, p. 3).

mediates. It is important to review this role, especially as it is central to Lapavitsas's analysis of capitalist money.

Money plays the role of a social nexus between strangers, but it also epitomises alienated social relations – the relations between people appearing as the relations between things. Here, the emphasis is on two issues: the social power that money brings, and the trust that lies implicit within complex financial relations that are extended both temporally and spatially. Both of these have been addressed extensively, and need but the briefest re-iteration here.

Money as social power emphasises that those who hold money command resources. For Lapavitsas:

Money affords its owner power over others. It is misleading to think of the market as a locus of democratic equality because, presumably, commodity owners have exactly the same rights and obligations as each other. . . . The individuals who possess more money can also command more commodities and natural resources and, in the capitalist mode of production, more workers. The economic power of money is the source of its social power, making it possible for the owner to impose his or her will on others by advancing or withholding money. In turn, money's power over people and resources allows its owners constantly to establish new hierarchies of wealth and privilege.<sup>11</sup>

In its basic form, this is a power over distribution, in other words, the familiar argument that people with a lot of money get more than their share of resources. For Marxists, there is a particular focus on command over one particular resource: labour-power. From this follows the proposition that command over labour-power gives command over surplus-value production, command over accumulation, and hence command over the reproduction of social power. It is an important story, but it must be recalled that it is primarily a distributional story, in which the resource 'labour' is just a theoretical special case that invokes the sphere of production. Moreover, even for this special case, social power over labour is just as much a story of feudalism or slavery, as it is of capitalism.

The second dimension of the social relations of money is trust.<sup>12</sup> Trust, it is said, is what makes money social, although, insofar as trust is implicit in

<sup>11</sup> Lapavitsas 2003, pp. 66–7.

<sup>12</sup> Aglietta 2002, somewhat surprisingly, provided a sweeping review of the history and future of money that centres on the issue of trust.

all arms-length exchanges, it is required throughout the process of accumulation. Furthermore, relations of trust are implicit in exchange in mercantile and even feudal societies. The issue of trust in relation to money is generally applied to both the domain of immediate exchange (that the physical monetary unit is convertible into 'real' goods and services), and the domain of credit (that the institutional money system will convert book entries into physical money).<sup>13</sup> Following principally the seminal work of Georg Simmel, author of *The Philosophy of Money*, the issue of trust is associated with the general, unifying, standardising dimensions of money. Exchange creates, in Simmel's term, 'an inner bond between men – a society, in place of a mere collection of individuals'.<sup>14</sup> For Lapavitsas, the principal relations of trust are intra-capital, and are associated with the credit system:

Credit is originally a private and subjective relation of trust and power between capitalists, deployed to promote their individual economic activities. However, relations of trust and power are transformed in the course of credit transactions, and gradually acquire a social and objective character. . . . Relations of trust and power are transformed with the credit system and acquire an increasingly social content by involving banks, markets, and other credit institutions. The requirements of credit also become increasingly social, especially with regard to the information required to support trust. At the same time, the class nature of the capitalist mode of production makes itself apparent at all levels of the credit system.<sup>15</sup>

As with social power, trust and the credit system express the tension implicit in capital. As a claim on future surplus-value, generalised, 'objective' credit assumes all individual capitals' shared conflict with labour. But, as a contract that specifies the distribution of surplus-value between interest and profit, credit expresses one aspect of the tensions inherent in competition between individual capitals. Hence the 'trust' that is integral to capitalist money is always an alienated trust. After all, Simmel, while deeply critical of Marxism, was a close colleague of Georg Lukács:<sup>16</sup> trust is false consciousness!

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<sup>13</sup> This latter domain should certainly be qualified: it is not just credit, but all non-cash forms of money that require trust. We are posing financial derivatives as a form of money, and these, like credit, require trust for their widespread acceptance. The point here is to challenge the association of trust just with theories of credit money.

<sup>14</sup> Simmel 1978, p. 175.

<sup>15</sup> Lapavitsas 2003, p. 69.

<sup>16</sup> For a discussion, see Turner 1986.



The notions of social power and trust in these domains are probably straightforward in principle. But the form of social power and trust is always different in different 'communities'. Hence, theories which focus on these dimensions of capitalist money are always vulnerable to the problem of comparing power and trust across 'communities'. While our concern is with global finance – capitalist money beyond the nation-state, it is useful to look first, and briefly, at the problematic of money across different social contexts.

The contribution of Zelizer<sup>17</sup> has become well known for its forthright challenge to Marxists (and others) emphasising the capitalist nature of money. Her sociological studies of money in different social contexts contend that money plays different roles in different contexts, and is thus socially embedded. According to her, there can be no theory of 'money-in-general', there can only be a theory of 'multiple monies'.

This is a criticism that Lapavitsas has sought to challenge so as to re-assert the legitimacy of a Marxist theory of money.<sup>18</sup> Fine and Lapavitsas argue that:

For Zelizer, money is bound by social factors and customs, hence it is heterogeneous in nature. We argue instead that, precisely because it possesses a homogeneous aspect, money can fluidly express a variety of social relations.

Our argument . . . is that abstract labour provides the common aspect of commodities but diverse concrete labours become systematically commensurate only under specific social and historical conditions, that is, capitalism.<sup>19</sup>

The argument then unfolds predictably: money, as the universal equivalent *form* of value, provides the means to commensurate the substantive abstract labour embodied in the form of concrete labour.

Now, many readers may, at this point, wish to challenge Fine and Lapavitsas's reliance on the form and substance dichotomy.<sup>20</sup> We will stay with their response as it is posed, and point to a simple consequence: the 'substance' to which they point is neither founded in the domain of trust or of social

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<sup>17</sup> See especially Zelizer 1994.

<sup>18</sup> Lapavitsas 2003, p. 124ff.; Fine and Lapavitsas 2000. Others outside Marxism, such as Geoffrey Ingham, share the aspiration for a theory of money-in-general, and criticise Zelizer's argument of 'multiple monies', but, at this point, invoke a refutation of a theory of money grounded in the labour theory of value. See Ingham 1998, and 2001.

<sup>19</sup> Fine and Lapavitsas 2000, pp. 360; 364.

<sup>20</sup> In particular, we leave to one side the proposition of Lapavitsas that 'capitalist markets and money can act as templates for analysis of markets in other societies, provided that the distinction between substance and form of value is appreciated fully' (2003, p. 130).

power, in which Lapavitsas grounds his social theory of capitalist money, but in the domain of commodity relations. In doing so, Lapavitsas and Fine back themselves into a corner, for the focus on trust and economic power cannot be readily reconciled with an abstract-labour theory of money. Simmel, who gave focus to the issue of trust and the unifying, binding social role of money, was clearly opposed to the direction of analysis proposed by Fine and Lapavitsas. For him, economic power and trust are concepts that point to a purely sociological explanation of money.<sup>21</sup> Economic power and trust help to explain the evolution of money, not its distinctly capitalist role. Hence, Max Weber was apposite when he criticised Simmel for failing to distinguish between a 'money economy' and 'capitalism'.<sup>22</sup>

The problem is that a Marxist theory of money-in-general cannot invoke the social power of money and trust, unless it is to adopt an ahistorical theory of power and of trust, which would deny, or at least exclude, precisely the issue of the capitalist nature of money under capitalism. Ultimately, Ingham was right: in invoking a general theory of money via abstract labour, Lapavitsas and Fine need a commodity theory of money, for only commodity money can be framed in terms of the universal equivalent form of value.<sup>23</sup> Unfortunately, few Marxists, including Fine and Lapavitsas,<sup>24</sup> wish to go down the commodity-money path in explaining contemporary money-in-general.<sup>25</sup> Marxist value analyses, however, need to resolve this question of commodity money. It is a requirement for a Marxist general theory of money.

So what is the connection between commodity money and a theory of money-in-general? Lapavitsas has sought to reconcile this reliance on a theory of commodity money with the apparent contemporary dominance of 'valueless' (fiat and credit) money. The argument, in essence, is that commodity money is the 'fundamental', 'elementary' form of money, but 'in the performance of

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<sup>21</sup> Simmel 1978, p. 172.

<sup>22</sup> Weber 1965, p. 185.

<sup>23</sup> Ingham 2000.

<sup>24</sup> Lapavitsas's (2000) excellent summary of Marx's theory of money shows clearly the centrality of commodity money to Marx's analysis of money. But twenty-first century money is another matter, and Lapavitsas's analysis of contemporary money (e.g. 2003) has left commodity money aside.

<sup>25</sup> We are drawn to Fleetwood's (2000) explanation of the necessity of commodity money to the integrity of Marx's theory of value, but not to his (tentative) conclusions that the abandonment of commodity money means the end of a universal equivalent form of value. Nor is there the question of why nation-states have abandoned the universal equivalent and the value-form. This appears a rather instrumentalist approach to value theory, and, more critically, fails to open up the terms on which Marxian value theory can be used to understand new forms of money

its functions, it develops into more advanced, and typically valueless forms of money'.<sup>26</sup> The problem here is that, for Lapavitsas, 'valueless' money can be seen to emerge out of commodity money, but it also leaves commodity money behind, for he contends that contemporary, 'valueless' money no longer has an anchor in commodity money. Commodity money is thereby just part of the history and, Lapavitsas would have it, the logic of evolution of credit and fiat money. But, and this is critical, commodity money does not give us access to the workings of contemporary money. On the contrary, as accumulation advances, commodity money falls away. Fine, in another recent context, struggles to explain the contemporary connection to commodity money:

Marx's theory of money is in part based upon the notion that commodity money is displaced by symbols of money and, hence, indirectly, symbols of value – although ratification of such symbols ultimately requires intervention by the state. Paradoxically, it is precisely this displacement in its most modern form, in which the functions of commodity money or gold are more or less confined to the reserves of central banks, which leads many to reject Marx's monetary theory where they have genuinely considered it. *How can a theory of commodity money, based on value theory, be of relevance when commodity money is no longer in use. In riposte, it can be argued that Marx's monetary theory implies the displacement of commodity money.* How this occurs needs to be explored in theoretical and empirical context, moving beyond the mere symbolic circulation of values as commodities to incorporate the symbolic, at times fictitious, circulation of surplus-value. But, this is to anticipate, although it does root consideration of the currently evolving financial system within the bounds of the production system on which it depends for its profitability however much it might wish otherwise.<sup>27</sup>

There is some unease in reading this sort of statement. It is an articulate depiction of the current state of Marxian theory in relation to money, but it does not ultimately work in tying money to abstract labour. Chapter One of Volume I of *Capital* does not work if money is just a symbol. Of course, no Marxist would want to argue that the issues of Chapter One have been 'displaced' by historical developments within capitalism. Moreover, what is the analytical path 'back' from symbols to labour time? As we see, from Fine

<sup>26</sup> Lapavitsas 2000, p. 654.

<sup>27</sup> Fine 2003, p. 9. Emphasis added.

and Lapavistas's critique of Zelizer, the form of money cannot be allowed to matter, for as soon as it does, there is no path back from particular forms to substance – except by assertion. Moreover, the state has sneaked, unannounced, into Fine's proposition, ratifying the representations of commodity money – a proposition which itself opens more questions than it resolves.

Our argument is that Marxists should not be so defensive about commodity money. It is as if any contemporary reference to commodity money automatically condemns Marxism to the nineteenth century and to current irrelevance. This point is made rather starkly by Ingham,<sup>28</sup> when he argues that the 'emphasis on the production of commodities fails to grasp the relative autonomy of the development of the means and social relations of production of modern bank and state credit-money'. Similar to the linguistic turn that has been employed to denote the shift in philosophy, we see in Ingham's analysis what can be labelled a 'monetary turn'.

The problem is that Marxists, and most critiques of Marxism, have come to equate commodity money simply with gold. Ingham's critique of Fine and Lapavistas (and of Marxian theories of money) reflects this conflation.<sup>29</sup> In rejecting a Marxist theory of money, Ingham's immediate recourse is to quote Marx himself back at Fine and Lapavistas: "'Throughout this work", Marx tells us on the first line of Chapter 3 of *Capital* Volume I, "I assume gold as the commodity money"'.<sup>30</sup>

Marx did indeed adhere to that assumption in *Capital* (although, in other work, he described bullionism as superstition) and, as Ingham emphasises, that was the convention of the time. It was the convention because gold was then the basis of money, and had a value in socially necessary labour time. But we do not have to take gold as the basic commodity for theorising capitalist money: it was merely the particular dominant commodity money of the nineteenth century. Nor should we now necessarily be looking for a commodity money unit that is 'like' gold. Maybe the money commodity need not be single commodity, and maybe not a *physical* commodity at all!

Marx's instincts about money were probably more astute than his analysis. His instinct was that money had to have commodity characteristics, but it had also to be abstracted from the characteristics of a particular commodity.

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<sup>28</sup> Ingham 1998, p. 7.

<sup>29</sup> Ingham 1984, and 2001.

<sup>30</sup> Ingham 2001, p. 315.

Indeed, the problem with gold was that it was only a particular commodity among many, albeit one that could, for a long time, ‘double up’ as the special money commodity.

Moreover, and to return to our starting point, gold was never *distinctly* capitalist money. It is pre-capitalist, even ancient money, cast (literally) into a capitalist role, and for the most part, under capitalism, it has laid idle in bank vaults while paper tokens represented it in virtually all monetary functions. There is nothing more absurd in a capitalist context than having abstract labour lying idle so that its form (gold) can symbolically play the role of the equivalent form of value. Distinctly capitalist commodity money would be a living part of accumulation, not a congealed, dormant, labour numeraire!

An alternative perspective is that Marxists should not so readily avoid the implications of commodity money but look to re-construct commodity money in a form more appropriate to its capitalist role. The problem, and it shows clearly in Fine’s quote above, is that if we start with a national notion of money, we need to rely on the state’s role in the provision and guarantee of symbolic money, and thus lose any possibility for a (re)conception of commodity money. For that reason, we prefer to shift the analysis to the level of global finance, where the nation-state cannot assume the role of *deus ex machina* in Marxism’s struggle with the status of commodity money.

## Global finance

At this point, we ask the reader to hold alive this issue of the need for a re-consideration of commodity money, for we will return to it shortly. We now turn to a parallel, though narrower, issue: the foundations of global finance. While Zelizer emphasised the social embeddedness of money in an anthropological/sociological sense, we can pose the same issue in the context of global finance. The parallel is that we talk of a global financial system and globally integrated financial markets, but there is no global state and no global unit of account (global currency). There are just national units of account circulating extra-nationally. So the parallel question is: what is the substance of global money-in-general?

Before providing an answer, we must note that the issues of communal trust and social power as means to define capitalist money look less robust in this global context than in the (implicitly assumed) closed community

posed above. The explanation of money as social power still ‘works’ on a global scale as Lapavitsas characterises it, at least as a depiction of the relations between rich and poor, though (apparently) random shifts in exchange rates make the power associated with a quantum of money appear arbitrary.<sup>31</sup> However, issues of trust become more difficult to interpret in a global context.

The trust question is conventionally posed in a closed economy with state-issued money because the monetary system is prudentially regulated by the nation-state, and the law of contract is enforced within a single or unified jurisdiction.<sup>32</sup> On these premises, we can recognise that trust does indeed play the role characterised by Lapavitsas. But once we leave an idealised national money system and look at global financial relations, the trust issue becomes more difficult to interpret. A unit of global money cannot be guaranteed by any nation-state, or even co-operating nation-states, unless exchange rates are permanently fixed – the variability in exchange rates means that the equivalence between any two money units and ‘real’ goods and services is uncertain. Moreover, the monetary system itself becomes subject to (nationally) exogenous shocks, and the prudential supervision of the extra-national operations of ‘local’ financial institutions is ambiguous, often escaping the jurisdiction of the institution’s ‘home’ state. Trust becomes more complex and potentially disengaged from the state. Whether the nation-state (or its central bank) will play lender of last resort to an institution with imprudent international exposure – be it Long Term Capital Management, Barings, or Enron – is a conjunctural political decision.

Ingham has noted this point in arguing that ‘there does not appear to be a clear enough distinction between state and market power in the production and management of world money’.<sup>33</sup> Furthermore, and following Weber, he argues that markets have a constant tendency to generate ‘unofficial’ or near-money, especially at the level of the world economy. Yet, beyond the realm of state money, the question of the basis of a general theory of money

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<sup>31</sup> This is a theme Itoh and Lapavitsas 1999 develop at more length, under the title ‘loss of control over money and finance’. Here we can see them tending to pose internationalisation as part of the loss of control nation-states have experienced over money and thus as a potential source of disorder.

<sup>32</sup> On this issue, Simmel (1978, p. 172) was clear: ‘only in a stable and closely organized society that assures mutual protection and provides safeguards against a variety of elemental dangers, both external and psychological, is it possible for such a delicate and easily destroyed material as paper to become the representative of the highest money value’.

<sup>33</sup> Ingham 1994, p. 31.

remains unresolved. While Ingham has emphatically rejected Marx's (gold) commodity money, in preference for post-Keynesian state money, the global scale presents a profound problem.

It is in the context of this rather different monetary system, where money cannot be explained by reference to the state – where volatile shifts in exchange rates are inexplicable and beyond state regulatory capacity<sup>34</sup> – that derivatives, particularly interest-rate and cross-currency interest-rate swaps, have come to the fore. Derivatives provide what nation-state fiat money could not provide on a global scale: they secure some degree of guarantee on the relative values of different monetary units.<sup>35</sup> Derivative markets and derivative products emerged from relative insignificance in the 1970s precisely because of a loss of trust in the global stability of monetary units after the end of the Bretton Woods régime of fixed exchange rates and tight national capital controls. With high rates of cross-currency capital conversions and volatile exchange rates, the value of money became uncertain across currencies. International credit markets could not guarantee real costs to debtors or returns to creditors, and national central banks, individually and collectively, could not remedy the situation. In this context, where the material foundations of trust were absent, derivatives offered hedging facilities that could reduce the costs of exchange-rate volatility for individual capitalists. They did not, thereby, create trust in currency values, but they neutralised the consequences of this loss of trust. Formal contracts guaranteed (for a price) the value of money in a way that spot foreign-exchange markets and central-bank regulations could not.

But, it must be added, the end of fixed exchange rates and the growth of exchange-rate volatility were just the proximate catalyst for derivative growth in the 1980s. Since then, they have developed a much wider and more pervasive presence across financial markets. Hence, it is important not to overemphasise the connection between these markets and the crisis of 'trust', as if they were simply a response to a crisis of instability, for financial derivatives more generally are not so driven.

An irony for our state-centred theorists now becomes apparent. Derivative issuance and trading had to locate in a space beyond national regulation.

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<sup>34</sup> Alan Greenspan, Chairman of the US Federal Reserve and hence the world's leading banker, has observed that 'despite extensive efforts on the part of analysts, to my knowledge, no model projecting directional movements in exchange rates is significantly superior to tossing a coin'. Greenspan 2004.

<sup>35</sup> By the mid-1990s, around one-half of transactions in financial derivatives involved a non-domestic counterparty (White 1998).

Their capacity to compensate for the loss of trust in global financial stability logically required that they existed outside the domain of nation-states. Yet, in these markets, issues of contractual enforcement, often between mutually unknown parties, became a legal minefield. The inability of a counter-party to meet their contractual obligations in this highly leveraged market is always a possibility, thus raising the problem of which jurisdiction should serve to enforce the law of contract: the jurisdiction of the country of the issuer, of the counter-party, of the location where the transaction was negotiated or the contract traded, or, in the case of OTC derivatives, of the country of the service provider? Hence, 'trust' no longer rests on a reliable national money unit of account, but on the enforceability of contracts: an issue that applies in any sort of exchange, not just to money.

Indeed, in a global setting, issues of trust in relation to money and finance start to look different, for there is no neat nexus between trust, the nation-state, national territory and money. If we were to engage the issue of 'trust' in relation to derivatives markets, we would observe that it is no less critical for derivatives than it is for fiat money, for, in both cases, the money unit is itself not valued in terms of embodied labour time. But, unlike fiat money, trust in derivatives is not contingent on nation-states, nor on nationally-conceived communities. The major source of 'regulation' of derivatives, which ensures compliance with contracts, is now the derivative 'traders' industry organisation, the International Swaps and Derivatives Association (ISDA), whose members transact around 80 per cent of all derivative contracts. The ISDA requires that all members adhere to the Master Agreement on the enforcement of contracts,<sup>36</sup> which secures 'trust' in derivative contracts more effectively than nation-states or international courts. This is not trust based around conventions of nations or communities, it is capital collectively commodifying trust! We know, thereby, that it has a particular vulnerability to failure and hence financial crisis.<sup>37</sup>

## Derivatives and global money

To return to the core theme: what is the substance of global money when the monies of account that make up global finance are a wide spectrum of national

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<sup>36</sup> ISDA 2002.

<sup>37</sup> Accordingly, we argue, counter-party risk more than scenarios of 'casino capitalism' represent the likely scope for financial crisis.



currencies, and the rate of conversion between them is variable, sometimes volatile, and certainly beyond formal explanation? If Fine and Lapavitsas's proposition that money-in-general is based on abstract labour looked tenuous in the context of a single community (with a single currency, a single value of labour-power,<sup>38</sup> and a single state) it looks even more stretched in this global context.

Here is where derivatives become important, for they play the role of commensurating financial assets whose conversion rates between currencies, and their interest-rate régimes, cannot be otherwise guaranteed.<sup>39</sup> Moreover, these are not simply locked-in single conversions, such as futures or forward contracts that specify an exchange rate at an agreed future date (effectively privately fixed exchange rates), but involve more complex conversions that have the effect of giving one form of asset the characteristics of another form of asset – such as a bond, in Japanese yen, whose rate of interest is indexed to the S&P500. They have the characteristics of both bonds and equities. In this last example, they give the holder an exposure to US stock values, but without exposure to the US dollar. The possibilities of such asset blending are endless, and there are, accordingly, thousands of different derivative products tailored to specific customer needs.

Because they are traded in enormous volumes, the effect of these contracts is to broadly commensurate all different forms of financial assets across the world. The contract just identified blends bonds and equities, but there is also a plethora of other conversions that blend, for example, particular currencies with particular equities, currencies with commodity prices, or bonds with indices of house prices. The blending is virtually limitless, creating a complex web that links, directly or indirectly, all varieties of assets in all locations and across a spectrum of temporalities. They provide continuity to the global financial system and, for individual traders, offer stability in the rate of conversion between different assets. In the context of global finance, derivatives do what nation-states cannot: they provide a market-driven guarantee of convertibility over time.

In terms of money, they perform the role in international finance that gold played in the nineteenth century: they anchor the global financial system.

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<sup>38</sup> We will not here pursue the issue that the value of labour-power is location-specific. But it is a major problem for a theory of global money-in-general, as least as Lapavitsas and Fine have conceived it.

<sup>39</sup> As one finance researcher observed, '[d]erivatives make international asset substitution relatively simple' (Vrolijk 1997).

While gold was a fixed anchor (all national currencies and commodity prices had to adjust to gold), derivatives provide a floating anchor; an on-going, flexible web of conversions that binds the world's asset markets.

The comparison with gold is important, for one may recognise that derivatives now play some aspects of the role gold once played as a globally-recognised facility of equivalence. But the critical difference is that gold's value was determined (notionally, at least) by the socially-necessary abstract labour involved in gold's production. Derivatives do not have this same, simple link to embodied labour. The \$2,300 billion per day traded in OTC derivative markets is not obviously related to embodied labour in 'derivative production'. It is made up of the notional amount of financial assets that are tied up in derivative contracts, and, only in miniscule proportions, of the value of the labour of financial service providers (mainly banks) that compile and execute the contracts. Indeed, this miniscule amount of labour alone does not make derivatives commodity money any more than labour at the national mint makes fiat money commodity money. It is what this labour 'sets in motion' that is critical. Derivatives are not merely contracts. They embody within them on-going mechanisms of re-calculation, so that the value of our bond (above) is continually adjusting to movements in the yen and the S&P500. Each such derivative contract is, in itself, a continually adjusting element in the financial commensuration process. Yet, insofar as derivative contracts are 'produced', the in-built mechanisms of calculation their production set in motion give derivatives the capacity to commensurate different forms, locations, and temporalities of capital. They are thereby commodities that play multiple monetary functions. This commodified commensuration is what makes financial derivatives fundamentally different from other paper titles, such as fiat money and shares.

Fiat money derives its price from its political acceptability in circulation. There must be explicit and calculated state controls on the quantity of fiat money produced (put in circulation), or the money unit itself is debased via inflation. But this is not the case with derivatives, and so issues of trust are entirely different. Each derivative contract pertains to specific extant assets: options, futures and swaps must be settled according to a particular derivative contract, and there are no derivatives that do not have counterparties. This is inherent in the role of derivatives play in commensurating different parts (forms, localities, temporalities) of capital. It ensures a material basis to the quantity and value of derivatives in circulation.

How, then, do derivatives differ from shares? While derivatives and shares both have a foundation in capital, and in a necessary but not sufficient sense labour, shares are not money.<sup>40</sup> The key difference between the two in a monetary sense is that any monetary function of shares is largely incidental – a side-effect of growing liquidity in stock markets. The critical and distinctive attribute of shares is ownership of a (notional) bit of a corporation, and thus shares play a role in the market for corporate control. Shares are also direct claims to dividend streams. This attachment to ownership gives shares a materiality, but also ‘grounds’ them in a particular and unique asset. The sale or purchase of shares is first of all about changing titles to ownership, not about establishing equivalence.<sup>41</sup> Derivatives, however, do not relate to the ownership of any particular, unique ‘bit’ of capital, for derivative transactions remain entirely within the monetary sphere without any necessary ‘conversion’ into concrete assets.<sup>42</sup>

It should now be apparent why we want to identify derivatives as money, instead of just insurance contracts. It is because derivative contracts ‘set in motion’ a computational process that builds bridges between, and reconciles, different forms of capital into a singular empirical concept of capital. Derivatives, therefore, give us access to capital-in-general through which the path from abstract labour to money-in-general must run.<sup>43</sup>

The corollary is that we have to countenance the notion that the commodity money may be very different from the meaning attached to gold. Although

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<sup>40</sup> Of course, in a technical sense, they can perform monetary functions when, for example, shares are used to settle a debt but any commodity can be used in this function, so it can safely be ignored. The liquidity characteristics of many shares now certainly rival bank deposits, so we are here making no strict distinction between money and near money or money substitutes.

<sup>41</sup> Put another way, shares are tied to particular individual forms of capital, but are not used to commensurate other forms of capital. IBM shares are not used directly to price Daimler Chrysler shares, and more importantly to commensurate oil prices. But it is this commensuration process that is ‘built into’ derivatives that gives them a money function.

<sup>42</sup> Importantly here, almost all commodity derivatives are settled in cash, and more importantly, the overwhelming number and value of financial derivatives are transacted in forms denominated in fiat or near money.

<sup>43</sup> It can be noted that there is a vague parallel here with neoclassical economics. In their own unique abstraction of perfect information and perfect markets, the neoclassicals contend that financial derivatives serve to ‘complete’ markets. In this sense, they have been called Arrow-Debreu securities.

In a different context, Wennerlind argues via a linguistic parallel: ‘capital tries hard to eliminate . . . rigidities and barriers so that the ideal speech situation for money can be established’ (Wennerlind 2001, p. 568).

this alternative commodity money is not based in primitive notions of preciousness, or on neoclassical notions of scarcity, it is not as challenging for Marxist theory as it may first appear. Marxists are, after all, not physiocrats, for they value not the physical qualities of the money commodity, but its clear representation of equivalence based in abstract labour. This representation comes not from taking the concrete labour of a particular physical commodity (historically gold) and endowing it with universal meaning. The attachment to gold was not to abstract labour, but to particular concrete labour, because there were no clear mechanisms to commensurate labour in gold with all other labour. Hence, under the Gold Standard, gold could never trade at its cost of production.

On the contrary, the representation of abstract labour can only be found within capital-in-general. Company shares or bonds, both individually and collectively, cannot express capital-in-general in the same way, for they are tied to a particular 'bit' of capital. Derivatives, on the other hand, though not individually but collectively, actively commensurate all these different 'bits' of capital, and thereby create an empirical notion of capital-in-general. In short, derivatives break the distinction between 'money' and 'capital', and thereby make 'money' an integral part of capitalist accumulation.

## Conclusion

To return once more to our starting point: derivatives are not just money within capitalism; they are distinctly capitalist money, for they embody, in their very 'design', the process of competition and accumulation. Unlike gold, their generalised use in transactions would have no meaning in feudalism.

Derivatives provide the key to a general theory of capitalist money, rather than just an example of money under capitalism. To be sure, not all money is derivatives, and daily life is transacted in symbolic money, designated in 'local' state-administered units of account. But a general theory of money must ask what is the substance that unites these various local monies. Zelizer asked this question at the micro-level, and concluded that all monies are 'different'. With Fine and Lapavistas, we want to contend that they have something in common, but we believe that the key for a *general* theory lays at the global level, not just the national level. At this level, issues of social power, trust, and nation-state guarantees do not provide the foundations for a general theory. A focus on trust and state money can offer insights in the

evolution of money, and social power must be recognised as a function of money (of whatever sort); but none offers an explanation of money itself.

In a globally-integrated, but not unified, financial system, the question is: how does capital itself secure the substance of the global money unit? The answer is that it continually transforms part of capital into financial derivatives. This does not mean that capital abandons state money, for the various state monies provide the various units of account of global finance, but the range of state guarantees for the integrity of each currency is simply not sufficient. Derivatives bind the global financial system into an integrated unity in a way that states cannot.

We can thereby posit derivatives as the expression of a distinctly global money, operating at a higher level of generality than national currencies. Moreover, we can see here a path back to commodity money – not just via an analogy with the role of gold in the nineteenth century, though there are elements of that, but also via a contrast with gold as the chosen commodity money. As commodity money, gold stood outside of accumulation. Its production was part of accumulation, and that gave the critical definitional (but purely definitional) connection to labour time. But beyond that point, the labour embodied in gold ceased to be part of accumulation. It assumed the status of a religious icon, locked up in Fort Knox and other national repositories – and even these are being sold off. Derivatives, on the other hand, are not physical commodities. Embodied labour cannot be locked up in them because it is ‘alive’ within the derivatives themselves through the conversions and the commensuration that these derivatives accomplish. Gold was a static commodity money – a benchmark against which other values could be measured. By contrast, derivatives, via their flexibility, constitute a diverse, dynamic, and distinctly capitalist commodity money, which is better suited to the new conditions of accumulation we now live in.

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